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MACROECONOMIC POLICY QUESTIONS: NET TRANSFER OF RESOURCES BETWEEN DEVELOPING AND DEVELOPED COUNTRIES

Report of the Secretary-General

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* A/49/150.

SUMMARY

1. Total net capital inflows, that is, the sum of net foreign investment, net credit, grants and other net financing, to capital-importing developing countries reached $154 billion in 1993. Net payments of dividends and interest amounted to $63 billion. Thus, the net financial transfer to capital-importing developing countries rose to $91 billion, the highest ever recorded.

2. The most dynamic components were private short-term capital, including repatriation, and foreign direct investment. Official credit now carries less weight than it did in the previous period of positive transfer.

3. A dozen countries in Asia and Latin America, characterized by financial analysts as "emerging markets", received most of the capital inflow, while the vast majority of developing countries have not been touched by the growth in net financial transfers.

4. There is no assurance that the present trend is sustainable, and several countries are taking policy measures to make their economies capable of adjusting to a sharp contraction in these large inflows. These measures are aimed at channelling external flows to fixed capital investment, export diversification and technological modernization.

5. Countries with a very rapid inflow faced difficult policy choices regarding the appreciation of their currencies, the excessive increase in reserves and the concomitant pressure on the money supply, sterilization measures and related costs, and the need to slow down short-term capital inflows. The choices made have prevented excessive disequilibria so far.

6. Had developing countries encountered in 1993 the same prices for their imports and exports as they did in 1989, their foreign exchange earnings would have been $75 billion greater than they actually were. Thus, the actual change in real resource availability was less than indicated by the financial transfer. In some countries, losses as a result of deteriorating terms of trade were quite large and exceeded the net financial transfer.

7. Official development assistance (ODA) for the poorest developing countries, which have not yet been able to tap the international private capital markets, continues to be essential. The economic transformation necessary to attract funds from the large pool of international private capital requires an increase in aid to develop infrastructure and human resources.

8. An interest rate shock could rapidly reverse the flows, not least because in several developing countries external debt at variable interest rates is still high. Efforts to avoid extremes of volatility in international financial flows would benefit all countries.

I. INTRODUCTION

9. The net transfer of resources to capital-importing developing countries 1/ on a financial basis 2/ having remained negative from 1983 to 1989, became positive in 1990 and gradually increased thereafter, to surpass $90 billion in 1993 (see table 1 below). About half the net financial resources were used to build up reserves, but the other half allowed expenditures on imports to rise relative to export earnings, financing new trade deficits. If, however, account is taken of the deterioration of the terms of trade of these countries, the changes in real resource availability during the period were considerably smaller.

10. The increasing inflows of capital, which are the main determinant of the shift from net negative to net positive transfer of financial resources, can be interpreted as a "return to normality" in the development process: at initial stages of growth, when installation of productive activity is import intensive, developing countries need to import capital to finance the corresponding current account deficit and to complement domestic savings. 3/ Nevertheless, such a return to normality has to be seen in the light of two phenomena: first, only a limited number of countries are affected, and secondly, it has brought its own harvest of policy dilemmas and questions about sustainability.

11. The present report has been prepared in response to General Assembly resolution 47/178 of 22 December 1992. It is the fifth in a series of reports of the Secretary-General in which the analysis of the net transfer has evolved. The first report (A/42/272) was presented in 1987, when the net outflow of resources was reaching alarming levels in a considerable number of developing countries.

II. TRENDS IN THE NET FINANCIAL TRANSFER TO DEVELOPING COUNTRIES

12. In 1993, capital-importing developing countries received a net transfer of resources on a financial basis of around $91 billion. 4/ The level of the transfer in the last few years is larger than the one of the early 1980s, immediately before the debt crisis gave rise to the negative transfer. While the average net positive transfer for the triennium 1991-1993 was around $66 billion, in the triennium 1980-1982 an average of $28 billion was registered. Even as a proportion of the aggregate gross domestic product (GDP) of developing countries, the recent net inflow is larger than the one of the early 1980s. 5/

13. Not all the increased net financial transfer to developing countries went to finance current account deficits. Much of the new capital inflows to several developing countries went into reserves, which in various cases had been severely depleted after the debt crisis. The ratio of official reserves to current expenditures on goods and services (including interest payments) increased by 70 per cent between 1983 and 1993 for all developing countries, but it more than doubled in the 15 heavily indebted countries. 6/ Correspondingly, the net transfer on an expenditure basis, which is, after certain adjustments,

the financing required to cover the current account position, is far smaller than the net transfer on a financial basis (see annex for definitional distinctions). In 1993, nearly half the net financial transfer went into reserves (see table 1 below).

14. Whatever the concept and operational definition used, the average figures clearly indicate an attenuation of the balance-of-payments constraint of developing countries, reflected in the increased share of imports in GDP by comparison with the period of severe external constraint. Of course, the average figures capture neither the diversity of developing country experiences nor the characteristics of those capital flows that have determined, first, the shift from negative to positive transfer and subsequently the continued increase of the positive transfer so far during the 1990s.

15. The largest change in trend, when comparing the early 1990s and the late 1980s, occurred in Latin America. This essentially reflects the fact that the sea change took place in a group of countries previously classified as heavily indebted countries, in which Latin America figures prominently, and is consistent with the role played by the debt crisis of 1982 in giving rise to the negative transfer in the first place. In Africa as a whole and in sub-Saharan Africa no change in trends can be discerned (see tables 2 to 6 below).

16. The increased positive transfer to developing countries in the triennium 1991-1993 can be broken down as follows:

(a) Large increases in foreign direct investment in Asia and Latin America. In the last two years, the share of the net transfer on account of foreign direct investment in the total net transfer was roughly the same in Asia and in Latin America;

(b) Stupendous increases, of 150 per cent in certain years, in the net inflow of short-term capital, including capital repatriation, in particular in Asia in 1991 and in Latin America in 1992 and 1993;

(c) Return to some private long-term borrowing in Latin America, which brought a reduction of the still negative net transfer on that account;

(d) Increase in net official credits in Asia, raising, for that region, the net transfer on account of official flows. Yet the net transfer on account of official flows turned negative in Latin America in 1991. However, it remained positive and increased in Africa as a whole and in sub-Saharan Africa, mainly because of an increase in official grants 7/ (see tables 1 to 6 below).

17. In Latin America, the reversal in the trend of net capital flows in the 1990s included a considerable amount of capital repatriation. It also included new forms of access to the international market, such as issuing bonds and selling shares in the developed-country markets (in particular in the United States of America by using American Depository Receipts issued by the main banks), portfolio investment that enters through specific country funds and foreign direct investment associated with the process of privatization. 8/ In Asia, new instruments, including equity investments in stock markets, also developed rapidly.

III. DETERMINANTS OF THE CHANGE IN FLOWS

18. In its survey on "Financing and external debt of developing countries" issued in 1990, OECD noted that "short of a marked fall in international interest rates or significant debt (service) reduction, and a vigorous recovery of confidence and investment in the problem countries, the underlying trend is for persistently high and even growing net financial transfers" from developing countries. 9/ Indeed, in the early 1990s, international interest rates declined and so did debt-burden indicators, such as the ratios of total debt to GNP and debt service to exports, in the major debt problem countries. Confidence in these major debt problem countries improved correspondingly, and the net transfer was reversed. As noted in the World Economic and Social Survey, 1994, "the degree of market access [to international private capital] in 1993 was possible mainly because most of the large debt-crisis countries have either reduced their debt-burden indicators to levels that the market accepts, or developed high reserve levels to which the market looks for security, or borrowers have made arrangements for various types of guarantees, such as collateral, that reduce the perceived risk." 10/

19. The reversal of the net financial transfer was thus determined by "attraction" and "expulsion" factors. Domestic policy that promoted more stable rules of the game, progress towards fiscal consolidation and prospects of a more stable internal economic environment, liberalization and opening of the economy and the strength of the domestic and regional markets are among the former. Recession and low interest rates in several developed economies were among the latter. 11/ For each country and each region a particular combination of these various factors is at work. 12/

20. Private capital flows have been the main source of the new net transfer in the recent phase, while official credits carry less weight than they did in the previous period of positive transfer (i.e., before 1983). Accordingly, the new-found abundance of foreign capital benefited only a relatively small number of developing countries able to tap private international markets, even though most of the largest developing economies are included in this small number of countries that financial analysts characterize as the "emerging markets".

21. Official credit is not among the determinants of the change, although, after official grants, official credit is still the main component of the positive transfer towards Africa, and especially sub-Saharan Africa. The transfer on account of multilateral official lending provided by the Bretton Woods institutions has been negative in the 1990s. Having steeply increased lending in the wake of the 1983 debt crisis, IMF and the World Bank are now in a repayment mode.

22. While IMF was conceived as a revolving fund, in which net lending (i.e. new lending minus repayments of principal) should, on average, approach zero over time, net lending has been negative since 1986, with the exception of 1991. 13/ Net IMF lending to developing countries was again negative in 1993 ($400 million).

23. The net transfer to IMF from developing countries is larger than the net negative lending of IMF because it includes interest payments. The net transfer

to developing countries on account of World Bank lending (taking the sum of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)) became negative in fiscal year 1991 and continued to be negative in fiscal years 1992 and 1993. 14/ It is important to note, however, that transfers from the Bretton Woods international financial institutions have continued to be positive to the most needy regions, in particular sub-Saharan Africa and parts of Asia.

24. The regional development banks taken together made a positive net transfer in the 1990s. However, while the net transfer from the African Development Bank (AfDB) and the Asian Development Bank (ADB) was positive, it was negative from the Inter-American Development Bank (IDB). 15/

IV. FINANCIAL TRANSFERS AND ACCESS TO REAL RESOURCES

25. The rise in the net financial transfer means, in principle, an increase in the country's access to real resources, goods and services, from abroad. But the two are not equivalent. Of course, that part of the transfer that goes into increasing a country's foreign exchange reserves does not directly finance imports of goods or services. Accordingly, to assess whether access to real resources is improving, the starting-point is the financial transfer on an expenditure basis (the last line in tables 1 to 6 below). 16/ But this access depends also on the price movements of exports and imports. The same level of financial transfers can be associated with a lower (or higher) level of access to real resources when the country or region suffers a loss (or gain) in its terms of trade. Changes in terms of trade and changes in the patterns of financial flows have interacted in many ways. 17/

26. During the 1990s, developing countries continued to experience a deterioration in their terms of trade. 18/ Had developing countries received and paid for their exports and imports in 1993 the average prices they received and paid in 1989, they would in 1993 have had an extra $75 billion available in foreign exchange. The accumulated loss owing to a deterioration in the terms of trade in the period 1990-1993 is over $150 billion (see table 7 below).

27. The 1993 loss is equivalent to about 2 per cent of the aggregate GDP of developing countries in that year. Apparently a small figure, it is large in relation to national savings or investment ratios in developing countries. Indeed, changes in terms of trade affect investment in a significant manner. 19/ However, such losses or gains have to be analysed in relative terms and several elements have to be taken into consideration:

(a) This type of measure is highly sensitive to the base year chosen: when, for instance, 1980 (a year of high prices for oil and several other commodities) is taken as the base year the estimated loss in the year 1993 is over $350 billion, or 9 per cent of GDP of developing countries; 20/

(b) Terms of trade of developing countries have been declining for a prolonged period; 21/

(c) Shifts can be large, in individual countries as well as in regions, and the instability is higher in those countries that depend on a few export commodities;

(d) Similarly, the faster and easier the speed of economic adjustment to relative price changes, the less meaningful are long-term calculations of the gains or losses from changes in international trade prices; 22/

(e) The larger the exports and imports of a country relative to its GDP, the larger the loss or gain from a given change in the ratio of export unit prices over import unit prices.

28. Regional estimates of the impact of terms-of-trade variations in the 1990s are shown in table 7 below. As is well known, sub-Saharan countries were subject to the largest losses in proportion to their economies. As noted above, fluctuations are important: West Asia, the region that has shown the largest oscillations in the last two decades, lost on price movements in 1993 as much as it had gained in 1990. China has suffered comparatively small terms-of-trade losses in 1993, on account of its diversification into manufacture exports and of large imports of commodities during the recent boom. That South and East Asia has the largest dollar value for the terms-of-trade loss in 1993, as seen in table 7, does not indicate that it suffered the worst deterioration in terms of trade but rather that the value of its exports and imports is by far the largest of all the developing country regions. As a share of exports, Africa's and sub-Saharan Africa's losses are the largest, and South-East Asia's the smallest.

29. The impact of terms-of-trade movements and financial flows differs, as would be expected, from country to country. The combined effect in both variables can lead to dramatic changes in the access of individual countries to real resources, as happened in the early 1980s when a significant deterioration in the terms of trade was accompanied in several countries by a large outflow of financial resources. 23/ The following paragraphs illustrate the combined effects in three developing countries in recent years.

30. Côte d'Ivoire has been one of the countries most severely affected by the decline of the prices of its major export products over the last decade. The prices of cocoa and coffee, which account for about 40 per cent of its exports, were about halved between 1984 and 1993. Between 1989 and 1993, average export prices declined by about 25 per cent, while import prices have generally increased. Côte d'Ivoire would have gained the equivalent of $1.5 billion between 1990 and 1993, nearly 4 per cent of GDP per year on average, had it received and paid 1989 prices for its exports and imports.

31. In the period 1990-1993, Côte d'Ivoire received an accumulated net transfer, on a financial basis, of about $2 billion. In contrast to many developing countries in Asia and Latin America, the financial transfer was mainly composed of official flows. Foreign direct investment was negligible and portfolio investments were virtually non-existent. External finance, over the years, has been insufficient to cover the current account deficit and, by the end of 1992, Côte d'Ivoire had accumulated $3.3 billion of arrears on debt-service payments (mostly to private creditors).

32. The net transfer, on an expenditure basis, is similar to that calculated on a financial basis, since no large changes in reserves took place in Côte d'Ivoire. Thus, only a relatively modest increase in its access to real resources took place in that period when account is taken of the loss in terms of trade. Prospects for the economy of Côte d'Ivoire, however, have improved recently. During the second half of 1993, coffee and cocoa prices started to edge upwards. This trend has continued into 1994. Moreover, in January 1994 its currency, which had been kept at the same nominal exchange rate to the French franc since 1948, was devalued by 50 per cent. Economic reforms, new IMF lending and debt relief have accompanied the devaluation. The Paris Club agreed to give enhanced Toronto terms to Côte d'Ivoire, which will reduce by half the net present value of the non-concessional official debt servicing. 24/

33. In Indonesia in the 1990s, terms of trade fluctuated in a narrow range, not considering the exceptional upward spike in 1990 in the wake of the Gulf crisis. Taking 1989 as the base year, the decline in terms of trade in 1992 was less than half of 1 per cent, and the corresponding loss in national income was negligible. Because of the substantial drop in oil prices, terms of trade are likely to have decreased by some 2½ per cent in 1993. But even with the steeper decline in 1993, the decrease in income in the period 1990-1993 is small (on average less than 0.3 per cent of GDP annually).

34. Indonesia's terms of trade have been highly sensitive to the world price of oil and, to a lesser extent, of other commodities, as these still constituted sizeable shares of total exports in 1992 (33 per cent and 19 per cent respectively). However, because of a rapidly growing share of manufactured exports (up from 32 per cent in 1989 to 48 per cent in 1992), the sharp declines in oil and commodity prices caused only a modest terms-of-trade deterioration. Manufactured exports continued to increase rapidly in 1993 and rose to over 50 per cent of total exports, while the shares of oil and other commodities fell to 26 per cent and 20 per cent respectively of total exports. Rapid diversification of exports into manufactures reduced the fluctuations and losses in terms of trade in the early 1990s.

35. Indonesia has had very large capital inflows in the 1990s, mostly private. Net capital inflows were in the range of $5.3 billion to $5.7 billion annually in 1990-1992, but they fell to about $3.5 billion in 1993, mainly owing to a slow-down in foreign direct investment and net long-term borrowing. Total net capital inflow in the period 1990-1993 was about $20 billion. Nevertheless, the net transfer on a financial basis in this period has been negligible owing to large interest payments ($3-$3.5 billion annually) on outstanding debt accumulated since the mid-1980s and repatriation of profits from foreign direct investment ($2-$2.5 billion annually).

36. Chile's terms of trade deteriorated by almost 20 per cent between 1989 and 1993. The fall was sharp in 1990, by over 10 per cent, but terms of trade remained fairly stable in the following two years. 25/ In 1993, however, the fall was again large, given price declines in Chile's main export products: copper, cellulose and fish-meal. Some of its fruit exports also suffered price declines in 1993. Meanwhile, import prices remained more or less stable.

37. The vulnerability of Chile to relatively strong terms-of-trade fluctuations within the overall declining trend derives from its export structure and high degree of openness. Despite the country's strong drive towards diversification, mining products were 47 per cent of total exports in 1992, manufactures, 41 per cent and agricultural products, mainly fruit, 12 per cent. In spite of its gradual decline from a peak of 70 per cent in the early 1970s, the share of copper in total exports was still 38 per cent in 1992. The copper price peaked in 1989 and has dropped since, to start edging upwards only in the second quarter of 1994. It remains volatile.

38. Had Chile's import and export prices remained the same as in 1989, the country would have earned, in the period 1990-1993, over $5 billion in extra revenue, equivalent to around 4½ per cent of the period's GDP. In the same period, the accumulated net transfer on a financial basis was around $3.5 billion. In terms of increased access to real resources, the shift to a positive transfer that has been taking place, with ups and downs, since 1990, has not been enough to cover the losses incurred through the price movements in its international trade.

39. Chile's net positive financial transfer in the 1990s is determined by very large private capital inflows, almost a flood in the years 1990 and 1992. Foreign direct investment, portfolio investments and short-term credits have been the main components. To allay pressure on the domestic money supply 26/ and forestall an appreciation of the exchange rate, the Chilean Government has adopted since 1992 measures to slow down the inflow of short-term capital. Copper prices have been rising since December 1993 and terms of trade can be expected to improve in 1994. Yet international interest rates are rising. The London Interbank Offered Rate in June 1994 was about one and a half percentage points over the 1993 average. 27/ This should affect Chilean interest payments on its external debt, which remains comparatively large, with about 80 per cent being at variable interest rates.

40. As shown in table 7, the capital importing developing countries suffered in 1993 a terms-of-trade loss of about $75 billion (with reference to 1989 prices). This puts in perspective the sizeable net transfer that took place in 1993 of $91 billion on a financial basis; a large part of this only covers losses incurred by developing countries through price movements in international trade. The increase in their access to real resources has, then, been far smaller. In a rough comparison, under the assumptions made here, it could be argued that one third of Latin America's $36 billion net transfer of 1993 was needed to cover losses incurred through price movements in its international trade. In Asia, more or less half of the net financial transfer of $48 billion covers such losses. Africa in fact suffered a decline in its access to real resources, to the extent to which the terms-of-trade loss was larger than the net transfer on a financial basis ($10 billion against $5 billion). And in sub-Saharan Africa, a terms-of-trade loss of $9 billion simply cancelled out $9 billion in net financial transfers (see tables 1 to 7 below).

41. Prospects for commodity prices have recently improved. Most of them have been rising since the third quarter of 1993. The combined United Nations Conference on Trade and Development (UNCTAD) index for commodity prices in terms of current dollars, in June 1994, had risen more than 10 per cent over the level

of mid-1993. The upward trend was registered in all commodity groups of the UNCTAD classification: food, tropical beverages, vegetable oilseeds and oils, and minerals, ores and metals. For this latter grouping, however, rises have begun more recently, and the average price level for January-June 1994 is not much higher than the average level for 1993. In fact, for several of the metals, such as manganese, iron, copper, zinc and tungsten, average prices in January-June 1994 were still below 1993 levels. Oil prices in August 1994 had risen above the 1993 level, driven by reaction to the conflict in Yemen, to the rapid economic recovery in the United States and, particularly, to the oil workers' strike in Nigeria, but it is uncertain whether higher prices could persist after normal conditions in Nigerian output return.

42. Given present trends towards the rekindling of growth in industrialized countries and continued strong demand for raw materials in some of the rapidly industrializing countries, the terms of trade of developing countries are expected to improve in 1994. 28/ Capital flows towards them are continuing, but no acceleration is forecast. All in all, the transfer of real resources to developing countries in 1994 is likely to improve, though its distribution will continue to be highly uneven.

V. POLICY DILEMMAS

43. The increase in the flow of capital to developing countries has been beneficial, but it raises a number of policy questions. Large inflows have led, in different degrees, to an increase in reserves, an appreciation of domestic currency, a much faster rise in imports than in exports and consequent dwindling of the trade surplus, and an increase in the current account deficit. Each of these trends can be regarded as a normal counterpart of the increased capital inflow, and not everywhere are its dimensions such that special preventive measures are required. There is, nevertheless, a question for Governments: in the event of the capital inflow being reversed or simply becoming smaller, how rapidly and in which manner would the economy be able to shift to a lower level of aggregate spending, to slow down imports, increase exports and reduce the current account deficit?

44. Are economies using the opportunity of increased foreign capital inflow in such a manner as to allow them to adjust smoothly if such an inflow later diminished substantially or became negative? This is a relevant question, because many countries have had the experience of access to abundant foreign capital during the 1970s, and the concomitant damage suffered when the access abruptly ceased after the 1982 debt crisis. After all, several countries are still dealing with the sequels to that crisis, and for many countries debt problems are far from over. Large inflows, when volatile, are not necessarily a bonus to the economy.

45. Initial conditions and policy dilemmas brought about by the capital inflow have varied. Much discussion is taking place on how to increase the gains and avoid excessive disequilibria resulting from the foreign capital inflow. 29/ Some countries have allowed their currencies to appreciate, either because, in their domestic policy setting, stabilization had priority over deterioration of the trade balance or because complementary measures were taken to reduce costs

in the export and import competing sectors. In others, measures are being implemented that compensate the export sector for the currency appreciation, and in a few cases the general trend towards trade liberalization suffered a momentary setback. In still others, the effort to avoid currency appreciation led to foreign exchange intervention, excessive increases in reserves and the parallel need to sterilize the monetary effects of rapid reserve accumulation. Quite a few central banks of developing countries had to incur losses on their sterilization measures, placing bonds in domestic markets for which they pay higher interest rates than those they obtain on their international reserves. A large number of countries need to find discretionary ways to channel external flows to fixed capital investments in order to raise the rate of investment. In some countries, different policy instruments are being used to slow down the inflow of the potentially more volatile components. In all, there is a search for adequate measures and for the best environment to guarantee that foreign direct investment increases export capacity and brings technical modernization.

46. Management of abundance is crucial to avoid some new "debt crisis" of a different nature in the 1990s. There is no assurance that real interest rates in international markets will remain at the levels of the early 1990s. But the biggest challenge is still how to increase finance for development in the countries unaffected by the recent surge in private capital flows, and that means most developing countries.

47. In the overwhelming majority of the poorer countries, despite all the talk about private capital having to take over the job of financing growth, ODA still has the main role to play. In a number of countries, all the best policies and legislation to provide incentives to foreign direct investment cannot attract private capital as long as the perception persists that their economies are not functioning properly and that their infrastructure does not offer the minimum base necessary for the activity of modern enterprises. Multilateral official finance is needed directly to raise investment and also has to play a catalytic role before a country is able to attract private investment on its own.

48. The improvement in terms of trade forecast for the majority of developing countries in 1994 should not lead to complacency. Gains are likely to be temporary. Many commodity prices, after a while, could start eroding again. Thus, the push to export diversification, duly supported by national strategies, remains a sine qua non for long-term development. This is particularly so in countries whose exports are heavily concentrated in primary commodities with low income elasticity. While national efforts are the key to a successful export strategy, bilateral and multilateral support, including long-term capital, should make a major difference in reducing the period required to achieve the expected results.

Table 1. Net transfer of financial resources of capital-importing developing countries, 1983-1993 a/

(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	6.2	6.2	7.5	6.0	9.5	14.5	16.8	16.8	22.5	30.6	37.9
Net dividends and other income	-9.3	-8.6	-8.0	-7.1	-8.1	-8.4	-10.0	-10.7	-10.1	-11.1	-10.9
Net transfer	-3.2	-2.4	-0.5	-1.1	1.3	6.1	6.7	6.1	12.4	19.5	27.1
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	27.7	17.3	12.0	7.4	2.5	9.3	-0.3	-0.8	13.2	23.4	25.9
Interest paid	-35.5	-40.4	-39.2	-34.7	-33.8	-39.6	-32.6	-29.1	-28.3	-27.3	-28.7
Net transfer	-7.8	-23.0	-27.2	-27.3	-31.4	-30.3	-32.9	-29.9	-15.1	-3.8	-2.8
Transfer through net stock transactions, short-term borrowing and domestic outflows c/											
Net transfer	-22.9	-14.1	-10.3	-3.1	-6.9	-14.4	-4.5	2.3	25.6	27.0	42.9
Transfer through private grants (net)	2.1	2.6	3.0	3.8	4.1	4.8	3.5	4.6	5.9	8.2	8.6
Transfer through official flows											
Official transfers (grants)	10.2	10.9	11.6	11.2	12.5	13.4	14.3	29.4	20.1	17.2	17.2
Net official credits	30.0	25.1	19.0	19.1	16.4	15.2	19.8	22.4	18.6	15.8	21.3
Interest paid	-9.6	-11.1	-12.8	-15.6	-16.7	-18.2	-18.5	-20.3	-21.7	-21.4	-23.6
Net transfer	30.6	24.8	17.9	14.6	12.2	10.5	15.6	31.5	17.0	11.6	14.8
Total net transfer (financial basis)	-1.2	-12.1	-17.2	-13.1	-20.6	-23.3	-11.6	14.6	45.9	62.4	90.6
Use of official reserves d/	-5.7	-16.8	-0.1	8.9	-13.1	-8.2	-18.4	-36.6	-46.3	-43.5	-46.4
Total net transfer (expenditure basis)	-6.9	-28.9	-17.3	-4.2	-33.7	-31.6	-29.9	-22.0	-0.5	18.9	44.2

(Source and footnotes on following page)

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of reinvested earnings (cash flow approach); official credits include use of IMF credit; interest includes IMF charges; private grants include net flow of gifts from overseas residents (excluding workers' remittances) and grants by non-governmental organizations.

a/ Sample of 93 countries, excluding the surplus-energy exporters (Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia and the United Arab Emirates) and recent surplus countries (Hong Kong, Singapore and Taiwan province of China).

b/ Preliminary estimate.

c/ Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears of interest due, stock transactions and other flows captured in balance-of-payments data as errors and omissions and presumed to be financial flows).

d/ Additions to reserves are shown as negative numbers.

Table 2. Net transfer of financial resources in Latin America a/
(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	1.9	1.9	2.6	1.2	3.7	5.5	4.3	5.2	9.1	12.1	15.0
Net dividends and other income	-2.3	-2.4	-2.5	-2.9	-2.9	-3.5	-4.9	-4.7	-4.0	-4.6	-4.4
Net transfer	-0.4	-0.5	0.1	-1.8	0.8	2.0	-0.6	0.5	5.1	7.5	10.6
Transfer through private credit											
Medium and long-term foreign borrowing											
Net credit flow	11.7	7.1	2.2	-1.0	1.4	-0.4	-7.4	1.3	3.7	4.7	8.0
Interest paid	-23.4	-26.2	-25.6	-21.3	-20.4	-24.0	-15.8	-12.6	-11.3	-11.0	-11.9
Net transfer	-11.6	-19.1	-23.3	-22.2	-19.0	-24.5	-23.2	-11.3	-7.6	-6.4	-4.0
Short-term borrowing and net domestic outflow c/											
Net transfer	-18.9	-11.5	-12.2	-1.8	0.7	-8.0	-4.4	-6.3	13.5	34.4	29.2
Transfer through private grants	0.5	0.7	1.0	0.9	1.1	1.5	1.4	2.2	3.0	4.3	4.0
Transfer through official flows											
Official transfers (grants)	0.9	1.2	2.1	1.4	2.0	2.1	2.2	3.3	2.9	2.7	2.4
Net official credits	7.5	9.5	6.2	6.6	4.0	4.1	4.2	7.1	0.5	-1.2	2.3
Interest paid	-2.8	-3.3	-4.0	-5.1	-5.6	-5.9	-6.2	-7.0	-8.0	-8.2	-8.5
Net transfer	5.7	7.3	4.2	2.9	0.3	0.3	0.2	3.4	-4.5	-6.6	-3.8
Total transfer (financial basis)	-24.8	-22.9	-30.2	-22.0	-16.0	-28.7	-26.5	-11.4	9.5	33.2	36.0
Use of official reserves d/	-0.7	-12.2	-0.6	7.9	-3.5	6.5	-3.1	-15.4	-17.8	-22.0	-16.6
Total transfer (expenditure basis)	-25.5	-35.2	-30.8	-14.1	-19.5	-22.2	-29.6	-26.9	-8.4	11.2	19.4

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

a/ Sample of 25 countries and territories.

(For remaining notes, see table 1.)

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Table 3. Net transfer of financial resources in Africa a/
(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	1.4	1.2	2.0	1.4	2.0	1.9	3.7	1.6	1.3	2.0	2.3
Net dividends and other income	-1.6	-1.4	-1.4	-1.3	-2.1	-1.7	-1.1	-1.2	-1.3	-1.2	-1.1
Net transfer	-0.2	-0.2	0.6	0.1	-0.2	0.2	2.6	0.5	-0.0	0.9	1.2
Transfer through private credit											
Medium and long-term foreign borrowing											
Net credit flow	3.6	1.2	0.4	1.9	2.3	3.5	1.2	-1.0	-1.7	-2.1	-0.2
Interest paid	-4.0	-4.3	-4.2	-3.3	-3.0	-3.7	-4.1	-3.9	-3.9	-3.8	-2.9
Net transfer	-0.4	-3.0	-3.7	-1.4	-0.7	-0.2	-2.9	-4.9	-5.6	-5.9	-3.1
Short-term borrowing and net domestic outflow c/											
Net transfer	-1.7	-3.0	-3.0	-0.9	-6.2	-4.0	-6.2	-15.7	-3.3	-3.2	-4.6
Transfer through private grants	0.3	0.5	0.9	1.1	1.0	0.9	1.0	0.9	1.0	1.1	1.1
Transfer through official flows											
Official transfers (grants)	3.9	4.2	4.8	5.1	5.9	6.4	7.7	20.8	10.5	9.5	10.0
Net official credits	8.5	7.1	5.1	5.4	5.8	5.6	6.5	5.9	6.3	5.8	5.4
Interest paid	-2.2	-2.6	-2.9	-3.6	-3.3	-4.3	-4.4	-4.7	-4.9	-4.1	-3.8
Net transfer	10.2	8.6	7.0	6.9	8.5	7.7	9.8	22.0	11.9	11.2	11.5
Total transfer (financial basis)	8.3	3.3	2.0	5.6	2.3	4.6	4.2	2.9	4.2	4.0	5.1
Use of official reserves d/	0.3	-0.3	-2.3	0.9	-1.6	-0.2	-0.8	-6.8	-6.0	-5.6	-3.0
Total transfer (expenditure basis)	8.7	3.0	-0.3	6.5	0.8	4.4	3.4	-3.9	-1.9	-1.6	2.1

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

a/ Sample of 44 countries.

(For remaining notes, see table 1.)

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Table 4. Net transfer of financial resources of sub-Saharan Africa a/
(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	0.4	0.1	0.2	-0.0	0.3	0.2	0.4	0.1	-0.0	-0.0	0.0
Net dividends and other income	-0.7	-0.7	-0.7	-0.7	-0.9	-0.7	-0.9	-0.9	-0.7	-0.8	-0.7
Net transfer	-0.3	-0.6	-0.5	-0.7	-0.6	-0.5	-0.6	-0.8	-0.7	-0.8	-0.7
Transfer through private credit											
Medium-and long-term foreign borrowing											
Net credit flow	1.0	0.4	-0.2	0.3	-0.1	0.6	0.4	0.1	-0.1	-0.0	1.4
Interest paid	-1.6	-1.2	-1.1	-1.1	-0.8	-0.8	-0.7	-0.7	-0.8	-0.5	-0.3
Net transfer	-0.5	-0.8	-1.3	-0.8	-0.9	-0.2	-0.3	-0.6	-0.8	-0.5	1.1
Short-term borrowing and net domestic outflow c/											
Net transfer	-0.6	-2.1	0.1	1.1	0.2	0.2	-2.3	-0.6	0.2	-0.5	-1.7
Transfer through private grants	0.2	0.5	0.7	0.6	0.8	0.8	0.7	0.9	0.9	1.1	1.1
Transfer through official flows											
Official transfers (grants)	2.9	3.0	3.5	3.9	4.7	5.3	6.2	6.4	6.5	6.9	6.9
Net official credits	5.0	3.8	2.8	3.4	4.3	4.1	4.2	4.5	3.9	4.0	3.7
Interest paid	-1.0	-1.2	-1.3	-1.7	-1.6	-1.7	-1.6	-1.7	-1.8	-1.5	-1.4
Net transfer	7.0	5.6	5.0	5.7	7.4	7.7	8.8	9.2	8.7	9.3	9.2
Total transfer (financial basis)	5.8	2.6	3.9	5.8	6.9	8.0	6.3	8.1	8.2	8.5	9.0
Use of official reserves d/	-0.4	-0.3	-0.8	-0.6	-0.8	-0.8	-0.2	-0.4	-0.2	0.7	-0.5
Total transfer (expenditure basis)	5.4	2.3	3.1	5.2	6.1	7.2	6.1	7.7	8.0	9.2	8.5

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

a/ Sample of 39 countries, excluding Nigeria and South Africa.

(For remaining notes, see table 1.)

Table 5. Net transfer of financial resources in Asia a/
(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	2.8	3.0	2.8	3.2	3.7	6.8	8.1	9.3	11.5	15.6	19.4
Net dividends and other income	-5.4	-4.8	-4.3	-3.1	-3.4	-3.7	-4.6	-5.5	-5.4	-6.0	-6.1
Net transfer	-2.6	-1.8	-1.4	0.1	0.3	3.1	3.5	3.8	6.0	9.6	13.3
Transfer through private credit											
Medium-and long-term foreign borrowing											
Net credit flow	12.4	9.3	10.2	6.3	-2.5	2.3	4.5	8.5	11.8	19.0	21.3
Interest paid	-7.0	-7.9	-8.3	-8.6	-9.2	-10.4	-11.4	-10.8	-11.2	-10.2	-11.4
Net transfer	5.4	1.3	1.9	-2.3	-11.7	-8.0	-7.0	-2.2	0.6	8.8	9.9
Short-term borrowing and net domestic outflow c/											
Net transfer	-3.5	-0.2	4.8	-0.4	0.7	3.6	5.3	7.4	18.4	13.8	12.1
Transfer through private grants	1.0	1.0	0.9	1.5	1.7	2.0	0.6	0.8	1.7	2.5	2.2
Transfer through official flows											
Official transfers (grants)	5.2	5.3	4.6	4.6	4.3	4.6	4.3	4.1	4.5	4.2	4.4
Net official credits	14.1	8.0	8.1	7.4	7.7	7.3	11.7	10.4	13.4	13.8	16.3
Interest paid	-3.8	-4.3	-4.8	-5.9	-6.7	-7.0	-6.9	-7.6	-8.1	-8.7	-10.0
Net transfer	15.6	9.0	7.8	6.0	5.3	5.0	9.1	6.9	9.7	9.4	10.7
Total transfer (financial basis)	15.9	9.3	13.8	4.8	-3.6	5.8	11.5	16.7	36.6	44.0	48.2
Use of official reserves d/	-5.2	-4.1	2.5	0.8	-8.3	-12.3	-9.5	-12.1	-27.5	-35.9	-37.6
Total transfer (expenditure basis)	10.7	5.2	16.3	5.6	-11.9	-6.6	2.0	4.5	9.1	8.1	10.7

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

a/ Sample of 21 countries, including China and India. Hong Kong, Singapore and Taiwan province of China are not included. Also excluded are surplus-energy exporters, namely Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates.

(For remaining notes, see table 1.)

Table 6. Net transfer of financial resources in 15 heavily indebted countries a/
(Billions of United States dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 b/
Transfer through direct investment											
Net investment flow	2.2	2.0	3.1	1.4	4.2	6.4	6.4	5.9	10.0	12.8	16.1
Net dividends and other income	-2.7	-2.5	-2.8	-3.1	-3.5	-3.9	-5.0	-4.7	-4.0	-4.7	-4.4
Net transfer	-0.5	-0.5	0.3	-1.6	0.7	2.5	1.5	1.2	6.0	8.1	11.7
Transfer through private credit											
Medium- and long-term foreign borrowing											
Net credit flow	13.9	6.9	1.8	-2.0	1.1	-0.5	-7.5	0.5	2.5	4.4	5.6
Interest paid	-26.1	-30.0	-28.3	-23.6	-22.6	-27.1	-19.0	-15.4	-13.9	-13.3	-14.6
Net transfer	-12.2	-23.1	-26.5	-25.6	-21.5	-27.6	-26.5	-15.0	-11.4	-8.9	-9.0
Short-term borrowing and net domestic outflow c/											
Net transfer	-18.9	-10.9	-15.5	-2.5	-3.8	-9.1	-6.6	-1.6	14.4	28.7	27.9
Transfer through private grants	0.7	0.9	1.1	1.0	1.3	1.4	1.6	2.6	3.1	4.1	4.0
Transfer through official flows											
Official transfers (grants)	0.7	0.8	1.3	0.9	1.2	1.4	1.7	2.9	2.6	2.8	2.6
Net official credits	8.7	9.7	5.2	6.3	4.4	3.7	4.5	7.3	0.7	1.0	2.6
Interest paid	-3.4	-4.2	-5.0	-6.3	-7.0	-7.8	-8.3	-9.4	-10.5	-9.5	-10.5
Net transfer	6.1	6.2	1.5	0.9	-1.4	-2.7	-2.1	0.8	-7.2	-5.8	-5.3
Total transfer (financial basis)	-24.7	-27.4	-39.1	-27.8	-24.7	-35.5	-32.1	-12.0	4.8	26.3	29.3
Use of official reserves d/	1.0	-13.2	-1.5	5.8	-3.7	4.6	-5.7	-19.7	-16.8	-22.5	-16.1
Total transfer (expenditure basis)	-23.8	-40.6	-40.6	-22.0	-28.4	-30.9	-37.8	-31.8	-12.0	3.8	13.2

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and the former Yugoslavia.

(For remaining notes, see table 1.)

Table 7. Developing countries: terms of trade loss or gain in relation to 1989
(Billions of United States dollars)

	Terms of trade loss/gain a/				Value of exports		1993 loss as % of	Average GDP	Average loss	Average 1990-93 loss as % of average
	1990	1991	1992	1993 b/	1993 b/	GDP 1993	1993 GDP	1990-93	1990-93	1990-93 GDP
Developing countries c/	0.6	-33.9	-50.2	-74.9	1 009	3 858	1.9	3 580	-39.6	1.1
Latin America and the Caribbean	0.9	-6.2	-8.7	-11.9	135	946	1.3	908	-6.5	0.7
Africa d/	2.1	-4.3	-6.9	-10.0	75	348	2.9	339	-4.8	1.4
Sub-Saharan Africa e/	0.1	-4.0	-5.7	-6.8	34	119	5.7	117	-4.1	3.5
South and East Asia	-12.1	-17.0	-23.7	-29.4	553	1 281	2.3	1 187	-20.6	1.6
China	-0.5	-1.5	-3.0	-5.3	92	658	0.8	425	-2.6	0.6
West Asia	15.1	-1.5	-4.0	-15.0	127	494	3.0	469	-1.4	0.3
Mediterranean	-4.8	-3.4	-4.0	-3.3	27	131	3.0	135	-3.9	2.9

Source: Department for Economic and Social Information and Policy Analysis of the United Nations, based on data of IMF and World Bank and United Nations Secretariat estimates.

Note: Gains or losses in the given year are calculated as $X(1-p^x) + M(p^m - 1)$ where X and M are export and import values of the given year and p^x and p^m are, respectively, the index of export unit prices and the index of import unit prices with 1989 = 1.00.

a/ The total loss/gain for developing countries is not the sum of the regional numbers because price indices differ.

b/ Preliminary.

c/ Country classification is in accordance with World Economic and Social Survey, 1994 (United Nations publication E.94.II.C.1), p. XII.

d/ Excludes South Africa.

e/ Excludes Nigeria and South Africa.

Notes

1/ Sample of 93 countries, excluding the surplus-energy exporters (Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia and United Arab Emirates) and the recent surplus countries (Hong Kong, Singapore and Taiwan, province of China).

2/ See the annex to the present report for a definition of the net transfer on a financial basis.

3/ See A/45/487, para. 6.

4/ The net transfer is a balance-of-payments based concept and it should not be confused with a related measure, the "total net resource flows" published by the Organisation for Economic Cooperation and Development (OECD). The OECD definition includes some items that do not appear in the balance of payments of recipient countries, the largest being technical assistance and scholarships. Because it pertains only to flows originating abroad and their servicing, the OECD definition does not include changes in the transfer owing to capital outflows from developing countries. Moreover, OECD figures cover several countries not included in the United Nations aggregate of capital-importing developing countries. Differences between the two measurements were discussed in the World Economic Survey, 1990 (United Nations publication, Sales No. E.90.II.C.1), pp. 79-81. The total net resource flow to developing countries in 1993, according to OECD, was $160 billion, of which ODA was $56 billion. ODA in 1993 declined 7.8 per cent in real terms compared to 1992 and was 0.29 per cent of the OECD Development Assistance Committee (DAC) member countries' total gross national product (GNP), the lowest ratio reported since 1973, according to OECD Press Release SG/PRESS(94)46 of 20 June 1994.

5/ About 2 per cent of GDP of capital-importing developing countries in 1991-1993 and 1.3 per cent in 1980-1982.

6/ See World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), annex, table A.28.

7/ The relative importance of each of the components of the financial flow in explaining the shift and the differential impact of each component in the various groups of developing countries was analysed in the 1992 report of the Secretary-General on the Net transfer of resources between developing and developed countries (A/47/404), in particular paras. 17 to 27. Further analysis of the regional differences in the absorption of the international transfer of resources is contained in the World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), pp. 96-102.

8/ An important amount of foreign direct investment in Latin America entered through debt-conversion schemes, but the importance of this component has declined in recent years. In Chile, for instance, conversion of debt into capital represented 44 per cent of foreign direct investment in the period 1985-1991, but since 1991 debt conversion has no longer taken place (see Manuel R. Agosin et al., "Los capitales extranjeros en las economías

latinoamericanas: el case de Chile", in Jose Antonio Ocampo, ed., Los capitales extranjeros en las economías latinoamericanas, FEDESARROLLO/Banco Interamericano de Desarrollo, Bogota, Colombia, April 1994, p. 113).

9/ As quoted in the report of the Secretary-General on the net transfer of resources from developing countries (A/45/487), para. 5.

10/ United Nations, World Economic and Social Survey, 1994, (United Nations publication, Sales No. E.94.II.C.1), p. 103. Debt difficulties remain, however, in particular in poorer countries, as analysed in the report of the Secretary-General on the external debt crisis and development also being presented to the General Assembly at its forty-ninth session.

11/ For a discussion of "attraction" and "expulsion" factors in Latin America, see Jose Antonio Ocampo and Roberto Steiner, "Los capitales extranjeros en las economías latinoamericanas", in Jose Antonio Ocampo, ed., Los capitales extranjeros en las economías latinoamericanas, FEDESARROLLO/Banco Interamericano de Desarrollo, Bogota, Colombia, April 1994; and Guillermo A. Calvo et al., "Capital inflows and real exchange rate appreciation in Latin America: the role of external factors", IMF Staff Papers, 40, No. 1, March 1993.

12/ See, for instance, Susan Schadler et al., "Recent experiences with surges in capital inflows", IMF Occasional Paper No. 108, Washington, D.C., 1993; and World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1) analyses in chapter II of how South-East Asia and China were comparatively less affected than other regions by the recession in developed countries (see pp. 53-58).

13/ Data of IMF, International Financial Statistics and IMF Survey. See World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), annex, table A.29.

14/ By roughly $2.3 billion and $1.5 billion respectively in fiscal years 1992 and 1993. The aggregate of the period 1989-1993 is positive. See World Bank Annual Report, various years, in particular, World Bank Annual Report, 1992, various tables in Section Six, pp. 111-156, and World Bank Annual Report, 1993, pp. 105-144. Data of the World Bank on Europe and Central Asia, pp. 141 and 125 respectively, are not included in the total estimate presented here.

15/ See AfDB, ADB and IDB annual reports, various issues. See also Delphin G. Rwegasira and Henock Kifle (African Development Bank), "Regional development banks and the objectives of the Bretton Woods institutions", paper presented to the conference on "The international monetary and financial system: developing country perspective" sponsored by the Group of Twenty-Four on the occasion of the fiftieth anniversary of the Bretton Woods Conference, Cartagena, Colombia, 18-20 April 1994.

16/ This is true, of course, only from an accounting point of view. When the increase in foreign currency reserves is part of a set of measures to stabilize the economy and when it gives rise to confidence and an improved risk assessment, it can indirectly expand the country's access to real resources by providing an incentive to the continued inflow of foreign capital.

17/ A comprehensive analysis of the interactions between terms-of-trade variations, financial transfers and real resource availability appears in the previous reports of the Secretary-General on the net transfer of resources. See A/42/272-E/1987/72, annex I, item C; E/1988/64, paras. 4-21; A/45/487, paras. 15-20 and annex; and A/47/404, paras. 35-40.

18/ See World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), annex, tables A.20 and A.21.

19/ For a detailed analysis, see Global economic prospects and the developing countries (World Bank publication, Washington, D.C., 1994), p. 56.

20/ Similarly, a study by the World Bank estimated that "annual loss to developing countries from the fall in commodity prices between 1980 and 1993 reached $100 billion a year in 1993 - or more than twice the total flow of aid in 1990", ibid., p. 32.

21/ IDB calculated that the price index of Latin America's major commodities relative to that of manufactures was, in 1991, at the lowest level for the whole century, and that this level was half of what it was in 1910 (Inter-American Development Bank, Economic and Social Progress in Latin America: 1992 Report, Washington, D.C., October 1992, box on p. 4). The World Bank identified in the period 1900-1993 a similar trend in a general (not just Latin American) real commodity price index (Global economic prospects and the developing countries (World Bank publication, Washington, D.C., 1994) p. 14). Such a price index points to losses being incurred by commodity exporters, but it is not the same as the terms-of-trade index of developing countries.

22/ Over a prolonged period, and certainly one longer than a dozen years, the basket of goods, upon which price comparisons are based, changes. Over this period, too, major reallocations of resources can take place in the light of price changes and, except in the case of specific commodities, such as oil and copper, production patterns can be altered considerably. Finally, while in the short run a decrease in prices does imply a loss, over a longer period a decrease in price does not necessarily mean that the relevant export activity is not profitable or even increasing in profitability, as major productivity gains can drive down the costs of production in a major way.

23/ See Report of the Secretary-General on the international debt strategy as of mid-1993 (A/48/345).

24/ Côte d'Ivoire would have been eligible for these terms before the CFA franc devaluation. See World Economic and Social Survey, 1994, box II.3 and pp. 105-106.

25/ See Boletín Mensual del Banco Central de Chile, May 1994, p. 1303. The terms-of-trade deterioration in the 1990s is a continuation of a trend, as Chile had already declining terms of trade during the 1980s.

26/ An inflow of $1 billion, if fully monetized, leads to a jump of 40 per cent in the Chilean money supply.

27/ London Interbank Offered Rates on United States six-month dollar deposits.

28/ The World Bank's optimism goes beyond 1994, to assume a stabilization of real commodity prices between 1994 and 2003, but it warns about much uncertainty in such a forecast. Global Economic Prospects and the Developing Countries, 1994 (World Bank publication, Washington, D.C., April 1994).

29/ Besides those already quoted here, further examples are: Susan Schadler et al., "Recent experiences with surges in capital inflows", IMF Occasional Paper No. 108, Washington, D.C., 1993; Jeffrey A. Frankel, Sterilization of money inflows: difficult (Calvo) or easy (Reisen)?, Center for International and Development Economics Research, University of California, Berkeley, October 1993; Edmar L. Bacha, "Selected international policy issues on private market financing for developing countries", in UNCTAD, International monetary and financial issues for the 1990s, vol. III, United Nations, New York, 1993; Roy Culpeper, Resurgence of private flows to Latin America: the role of American investors, Robert Devlin, Ricardo French-Davis and Stephany Griffith-Jones, Surges in capital flows and development: an overview of policy issues, and Stephany Griffith-Jones, European private flows to Latin America: the facts and the issues, papers prepared for the project of the United Nations Economic Commission for Latin America and the Caribbean on "New Capital Flows to Latin America and Macroeconomic Sustainability" and presented at a panel discussion convened by the Department for Economic and Social Information and Policy Analysis on 11 May 1994.

ANNEX

The concept of net transfer

"Net transfer" is a concept commonly used in United Nations studies of international finance and is a measure of international resource flow that takes account of capital flows and the investment income on such flows. It can be measured for any country by adding together all such financial flows in and out of the country, including changes in holdings of official reserve assets. It can also be measured as the financial counterpart to the balance of payments on goods, net foreign labour earnings (e.g., workers' remittances) and non-factor services (e.g., transportation, tourism and business services). If the balance of payments on this basis is negative (a deficit), the net transfer of resources is positive and may be thought of as the financing necessary to cover the deficit. If the payments balance is positive (a surplus), the transfer is a net outflow and is conventionally shown as a negative number. a/

This definition has been denominated in United Nations literature as the "transfer on an expenditure basis" because, in the end, this is the transfer that is spent on goods and services from abroad. This definition, however, treats changes in official foreign reserves the same as changes in any other financial asset, while reserves are special, especially from the perspective of macroeconomic management. Thus, another measure is defined which sums up the net transfer on all types of financial flows except changes in reserves. To distinguish it from the "transfer on an expenditure basis", it is called the "transfer on a financial basis". It is, of course, only the former one that, if positive, can be seen as the financing of the current payments deficit.

In terms of the newly revised system of national accounts, b/ the net transfer on an expenditure basis can be derived by making certain adjustments to the "current external balance", i.e., the net transfer would be the negative of the current balance (item B.12), excluding certain items. These are "property income" (item D.4) and the components of "other current transfers" (item D.7), which correspond in the balance-of-payments accounts to "other current transfers of general government" (balance-of-payments item 1.C.1.6) and "other current transfers of other sectors" (balance-of-payments item 1.C.2.2.6), all adjustments expressed as "net, receivable from abroad".

Notes

a/ For additional definitional details and a derivation of the measure from standard national accounting and balance-of-payments concepts, see World Economic Survey, 1986 (United Nations publication, Sales No. E.86.II.C.1), annex III.

b/ See System of National Accounts, 1993 (United Nations publication, Sales No. E.94.XVII.4), pp. 315 and 545.